

Message Text

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SUBJECT:RESPONSE TO ADDITIONAL QUESTIONS REGARDING THE EX-
PORT CREDIT FINANCING SYSTEM OF THE UNITED STATES (TC/ECG/
74.11)

REF: OECD PARIS A-18 OF JANUARY 22

1. FOLLOWING RESPONSES KEYED QUESTIONS TRANSMITTED REPAIR.
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(A) EXPORT CREDIT INSTITUTIONS AND THEIR SOURCES OF FUNDS.

(1) REGARDLESS OF THE APPLICATION OF THE FUNDS OBTAINED,
EXIMBANK DOES NOT OBTAIN FUNDS FROM THE U.S. TREASURY "BE-
LOW COST". PURSUANT TO THE LEGISLATIVE EXTENSION OF THE
BANK'S CHARTER, PUBLIC LAW 93-646 ENACTED JANUARY 4,
1975, EXIMBANK OBLIGATIONS TO THE U.S. TREASURY "SHALL BEAR
INTEREST AT A RATE NOT LESS THAN THE CURRENT AVERAGE YIELD
ON OUTSTANDING MARKETABLE OBLIGATIONS OF THE UNITED STATES

OF COMPARABLE MATURITY DURING THE MONTH PRECEDING THE ISSUANCE OF THE OBLIGATION BY THE BANK ..." FURTHERMORE, THE NOTION THAT EXIMBANK'S DISCOUNT LOAN PROGRAM IS BASED ON PREFERENTIAL INTEREST RATES TO MATCH OFFICIALLY-SUPPORTED COMPETITION IS ERRONEOUS. THE INTEREST RATE EXIMBANK WILL CHARGE A COMMERCIAL BANK ON A DISCOUNT LOAN WILL BE ONE

PERCENT LESS THAN THE INTEREST YIELD ON THE EXPORT OBLIGATION BUT NOT LESS THAN THE APPLICANT BANK'S PRIME RATE IF A LOAN IS REQUESTED WITHIN 90 DAYS AFTER THE BANK HAS DISBURSED AGAINST THE EXPORT OBLIGATION. IF THE APPLICANT BANK REQUESTS A DISCOUNT LOAN AFTER 90 DAYS, THE INTEREST RATE EXIMBANK WILL CHARGE WILL BE THE HIGHER OF (A) ONE PERCENT LESS THAN THE INTEREST YIELD OF THE EXPORT OBLIGATION, OR (B) THE EXIMBANK BORROWING RATE IN THE PRIVATE MARKET, AS DETERMINED BY EXIMBANK, FOR COMPARABLE MATURITIES ROUNDED TO THE NEXT ONE-QUARTER PERCENT. THE MAXIMUM CREDIT PERIOD ALLOWED GENERALLY IS FIVE YEARS. VOLUME AND VALUE OF DISCOUNT LOAN ADVANCE COMMITMENTS IN FISCAL YEARS 1973 (JULY 1972-JUNE 1973) AND 1974 (JULY 1973-JUNE 1974) WERE AS FOLLOWS:

FISCAL YEAR	NUMBER OF	VALUE TRANSACTIONS
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1973	2,008	DOLS. 1,640 MIL.
1974	1,778	DOLS. 924 MIL.

DISBURSEMENTS BY EXIMBANK AGAINST CUMULATIVE OUTSTANDING ADVANCE COMMITMENTS TOTALED DOLS. 372 MILLION IN FISCAL 1973 AND DOLS. 369 MILLION IN FISCAL 1974. EXIMBANK DOES UNCLASSIFIED

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NOT TABULATE ITS DISCOUNT LOAN DISBURSEMENTS ACCORDING TO THE FISCAL YEAR IN WHICH UNDERLYING ADVANCE COMMITMENTS WERE AUTHORIZED.

(2) NO. MOREOVER, IN FUTURE, EXIMBANK INTENDS TO BORROW FROM THE FEDERAL FINANCING BANK ADMINISTERED BY THE U.S. TREASURY, NOT FROM THE PRIVATE CAPITAL MARKET.

(3) TOTAL LOAN COMMITMENTS MADE BY PEFCO THROUGH DECEMBER 31, 1974 AMOUNT TO DOLS. 640 MILLION, ALL OF WHICH IS GUARANTEED BY EXIMBANK. DISBURSEMENTS UNDER LOAN COMMITMENTS MADE THROUGH THE SAME DATE TOTALED DOLS. 77 MILLION. THE PEFCO PROVIDES IMPORTANT ASSISTANCE TO U.S. EXPORT EFFORTS BY EXTENDING FINANCING AT STABLE, FIXED RATES. WHENEVER EXIMBANK IS PREPARED TO ISSUE ITS GUARANTEE IN A TRANSACTION, IT WELCOMES PEFCO'S PARTICIPATION.

(B) VARIOUS ELEMENTS OF FINANCING COSTS FOR THE EXPORTER OR BUYER.

(1) WHERE ONLY ONE COMMERCIAL BANK PARTICIPATES IN AN EXIM-BANK FINANCING PACKAGE, THE GENERAL PRACTICE IS FOR THE BANK'S INTEREST RATE TO BE ALL-INCLUSIVE EXCEPT FOR THE COMMITMENT FEE. WHEN A COMMERCIAL BANK ACTS AS THE LEAD BANK FOR A CONSORTIUM OF PARTICIPATING COMMERCIAL BANKS,

THAT BANK NORMALLY CHARGES A FEE FOR ITS SERVICE THAT IS NOT INCLUDED IN THE INTEREST RATE.

EXIMBANK'S INTEREST RATE DOES NOT INCLUDE THE COST OF THIRD-PARTY GUARANTEES, WHERE THESE ARE CONSIDERED NECESSARY TO PROVIDE "REASONABLE ASSURANCE OF REPAYMENT".

(2) IN GENERAL, FCIA COVERS 90 PERCENT OF BOTH THE COMMERCIAL AND POLITICAL RISKS ASSOCIATED WITH THE FINANCING EXTENDED TO U.S. SUPPLIERS BY COMMERCIAL BANKS. UNDER SHORT-TERM COMPREHENSIVE POLICIES, FCIA WILL PROVIDE 95 PERCENT POLITICAL RISK COVER (ALONG WITH 90 PERCENT COMMERCIAL RISK COVER). THERE IS NO FCIA FACILITY FOR INCREASING INSURED PORTIONS BEYOND THESE PERCENTAGES.

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UNDER THE MOST FREQUENTLY USED COMMERCIAL BANK EXPORTER GUARANTEE PLAN, EXIMBANK WILL ISSUE A COMPREHENSIVE GUARANTEE OF 85 PERCENT OF THE COMMERCIAL BANK'S PARTICIPATION IN ALL INSTALLMENTS AND A POLITICAL RISKS GUARANTEE FOR THE REMAINING 15 PERCENT OF THE BANK'S PARTICIPATION, WITH THE PROVISION THAT FOR THOSE TRANSACTIONS WITH A FINAL MATURITY OF THREE YEARS OR MORE, THE APPLICANT BANK CAN RECEIVE FULL COMPREHENSIVE COVERAGE OF THE LAST HALF OF THE INSTALLMENT AT THE MID-POINT OF PAYMENT IF EXIMBANK IS SATISFIED THAT THE REMAINING MATURITIES WILL BE PAID PROMPTLY AND THAT THE CREDIT WILL OTHERWISE CONTINUE TO OPERATE SATISFACTORILY. ON THE SAME BASIS, THE EXPORTER'S RETENTION IN A THREE-YEAR OR LONGER TRANSACTION CAN RECEIVE COMPREHENSIVE COVERAGE AFTER THE MID-POINT OF PAYMENT.

A COMPREHENSIVE GUARANTEE OF 100 PERCENT OF A COMMERCIAL BANK'S PARTICIPATION IN ALL INSTALLMENTS IS AVAILABLE FOR TRANSACTIONS INVOLVING SALES TO ACCEPTABLE PUBLIC (GOVERNMENTAL) BUYERS. IN EVERY INSTANCE THE EXPORTER MUST RETAIN AT LEAST 10 PERCENT OF THE FINANCING FOR HIS OWN ACCOUNT AND RISK.

(C) OPERATIONAL ASPECTS OF EXPORT CREDIT FINANCING.

(1) FOLLOWING A POLICY DECISION ANNOUNCED BY THE BANK ON FEBRUARY 27, 1975, EXIMBANK WILL FINANCE THROUGH DIRECT LOANS FROM 30 TO 55 PERCENT OF THE CONTRACT VALUE OF EXPORT SALES. EXIMBANK'S INTEREST RATE POLICY WAS MODIFIED AT THE

SAME TIME TO RANGE FROM SEVEN TO NINE PERCENT. DURING THE PERIOD JULY 1974-FEBRUARY 1975, A MAJORITY OF EXIMBANK CREDITS CARRIED AN EIGHT PERCENT INTEREST RATE AND WERE LIMITED TO SUPPORTING THE LOWER END OF THE RANGE OF CONTRACT VALUES.

(2) EXIMBANK DOES NOT HAVE A PROGRAM OF FINANCING PRODUCTS DURING THE PERIOD OF THEIR MANUFACTURE. HOWEVER, WHERE A PRODUCT REQUIRES A LONG PERIOD OF MANUFACTURE OR CUSTOM DESIGNING, AN FCIA POLICY MAY BE ENDORSED TO INCLUDE PRE-SHIPMENT COVERAGE APPLICABLE TO EITHER SPECIFIC CONTRACTS OF SALE OR TO ALL CONTRACTS OF SALE WITH COVERAGE BEGINNING FROM THE DATE OF EXECUTION OF THE SALES CONTRACT. THE UNCLASSIFIED

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ENDORSEMENT PROTECTS THE EXPORTER AGAINST SUCH POLITICAL RISKS AS CANCELLATION OF LICENSE TO EXPORT OR TO IMPORT, WAR, REVOLUTION, AND EXPROPRIATION WHERE SUCH EVENT MAY OCCUR PRIOR TO SHIPMENT. WHEN THE ENDORSEMENT IS ATTACHED TO A COMPREHENSIVE POLICY, IT ALSO PROTECTS AGAINST LOSS DUE TO INSOLVENCY OF THE BUYER AND AGAINST WITHDRAWAL OF THE INSURERS OF COVERAGE FOR THE BUYER'S COUNTRY PRIOR TO SHIPMENT. POLITICAL AND COMMERCIAL RISKS GENERALLY ARE COVERED FOR 90 PERCENT OF CONTRACT PRICES.

UNDER EXIMBANK'S COMMERCIAL BANK EXPORTER GUARANTEE PROGRAM, THE SAME RISKS DETAILED ABOVE MAY BE GUARANTEED ON A PRE-SHIPMENT BASIS FOR SPECIALLY FABRICATED GOODS. PROTECTION AGAINST POLITICAL AND COMMERCIAL RISKS GENERALLY EXTENDS TO 90 PERCENT OF CONTRACT PRICES. PROCEEDS OF EXIMBANK DIRECT LOANS CAN BE DISBURSED DURING THE PRODUCTION PERIOD TO THE EXTENT OF INVOICED AND CERTIFIED ACTUAL WORK PERFORMED.

(3) EXIMBANK LENDS DIRECTLY TO FOREIGN BUYERS AND THEY OBTAIN BINDING FINANCING COMMITMENTS FROM EXIMBANK AT THE TIME THE BANK AUTHORIZES THE CREDIT, WHICH USUALLY SUCCEEDS THE SIGNING OF A SALES CONTRACT. HOWEVER, EXIMBANK CAN PROVIDE EXPORTERS WITH PRELIMINARY COMMITMENTS CONCERNING THE LIKELY TERMS OF AN EXIMBANK DIRECT LOAN AT ANY POINT PRECEDING THE CONCLUSION OF THE TRANSACTION. PRELIMINARY COMMITMENTS MAY BE OFFERED TO SEVERAL EXPORTERS REGARDING THE SAME POTENTIAL EXPORT TRANSACTION.

(4) TWO DIFFERENT PRACTICES ARE FOLLOWED BY COMMERCIAL BANKS IN SETTING THEIR EXPORT CREDIT INTEREST RATES. ONE IS TO FIX AT THE TIME OF THE FIRST DRAWDOWN THE INTEREST RATE TO BE CHARGED THROUGH OUT THE DISBURSEMENT SCHEDULE. THE SECOND IS TO FIX AT THE TIME OF EACH DRAWDOWN THE INTEREST RATE APPLICABLE TO THAT DRAWDOWN ALONE. THE SECOND PRACTICE IS MORE COMMON. THE CHARGING OF FIXED INTEREST RATES BY COMMERCIAL BANKS IS EXTREMELY RARE.

(5) THE RATE WHICH EXIMBANK CHARGES FOR DISCOUNT LOANS IS

DETERMINED AS NOTED ABOVE IN (A).(1) AND IS FIXED RATE.

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EXIMBANK EXTENDS DISCOUNT LOANS ONLY TO COMMERCIAL BANKS ON

THE BASIS OF ELIGIBLE EXPORT OBLIGATIONS. THE INTEREST
RATE CHARGED THE EXPORTER BY THE COMMERCIAL BANK IS DETER-
MINED BY NEGOTIATIONS BETWEEN THEM.

(6) EXIMBANK PROVIDES REPAYMENT GUARANTEES TO FINANCIAL
INSTITUTIONS THAT EXTEND CREDITS IN NON-U.S. SOURCE FUNDS
FOR LOCAL COSTS IN CONNECTION WITH EXIMBANK PARTICIPATION
LOAN TRANSACTIONS. THESE GUARANTEES CAN COVER LOCAL COSTS
UP TO 15 PERCENT OF THE VALUE OF THE U.S. EXPORTS FI-
NANCED. THE MATURITIES OF LOCAL COST CREDITS OFTEN PARAL-
LEL THE MATURITIES OF COMMERCIAL BANK PARTICIPATIONS IN
THE EXPORT FINANCING, ALTHOUGH THEY MAY ALSO PARALLEL THE
MATURITIES OF THE COMBINED EXIMBANK/COMMERCIAL BANK EXPORT
FINANCING PACKAGES. KISSINGER

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